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**Versatile Mobile Systems (Canada) Inc.**  
**Consolidated Financial Statements**  
**December 31, 2003**  
**(Unaudited - Prepared by Management)**

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**Versatile Mobile Systems (Canada) Inc.**  
**Consolidated Balance Sheets**

	<u>December 31, 2003</u> <u>(unaudited)</u>	<u>June 30, 2003</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 919,842	\$ 1,152,287
Accounts receivable	3,264,833	1,440,340
Prepaid expenses	82,042	64,876
Inventory	1,384,560	1,094,694
	<u>5,651,277</u>	<u>3,752,197</u>
Capital Assets		
Intangible assets	228,695	276,541
Goodwill	145,560	204,066
	<u>3,644,508</u>	<u>3,644,508</u>
	<u>\$ 9,670,040</u>	<u>\$ 7,877,312</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,337,603	\$ 2,322,171
Deferred revenue	111,143	255,772
Current portion of capital lease obligations	15,675	16,663
	<u>3,464,421</u>	<u>2,594,606</u>
Capital Lease Obligations	22,441	30,016
	<u>3,486,862</u>	<u>2,624,622</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 4)	56,569,878	55,824,954
Warrants (note 4)	124,286	-
Contributed surplus	2,154,762	2,154,762
Deficit	(52,289,503)	(52,438,247)
Foreign currency translation adjustment	(376,245)	(288,779)
	<u>6,183,178</u>	<u>5,252,690</u>
	<u>\$ 9,670,040</u>	<u>\$ 7,877,312</u>

APPROVED BY THE DIRECTORS:

DIRECTOR: "John Hardy"DIRECTOR: "Fraser Atkinson"*See Notes to Consolidated Financial Statements*

**Versatile Mobile Systems (Canada) Inc.**  
**Consolidated Statements of Operations and Deficit**  
**(Unaudited - Prepared by Management)**

	Three months ended December 31		Six months ended December 31	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
SALES	\$ 5,039,522	\$ 3,861,544	\$ 10,265,242	\$ 8,590,490
COST OF SALES	<u>3,515,070</u>	<u>2,870,363</u>	<u>6,919,350</u>	<u>6,005,062</u>
	<u>1,524,452</u>	<u>991,181</u>	<u>3,345,892</u>	<u>2,585,428</u>
EXPENSES				
General and administrative	575,201	995,813	1,293,211	1,786,746
Research and development	303,995	372,130	547,785	1,194,339
Selling and marketing	643,046	587,199	1,278,709	1,299,843
Foreign Exchange (gain) loss	12,046	9,517	6,031	(79,938)
Amortization of capital assets	67,031	30,434	115,137	105,073
Amortization of intangible assets	14,874	64,692	52,796	129,561
Recovery of premise costs	(97,640)		(97,640)	
	<u>1,518,553</u>	<u>2,059,785</u>	<u>3,196,029</u>	<u>4,435,624</u>
NET EARNINGS (LOSS) BEFORE INCOME & TAXES	5,899	(1,068,604)	149,863	(1,850,196)
INCOME TAX EXPENSE	1,119	-	1,119	-
NET EARNINGS (LOSS) FOR THE PERIOD	<u>4,780</u>	<u>(1,068,604)</u>	<u>148,744</u>	<u>(1,850,196)</u>
DEFICIT, BEGINNING OF PERIOD	(52,294,283)	(50,480,086)	(52,438,247)	(49,698,494)
DEFICIT, END OF PERIOD	<u>(\$52,289,503)</u>	<u>(\$51,548,690)</u>	<u>(\$52,289,503)</u>	<u>(\$51,548,690)</u>
NET EARNINGS (LOSS) PER SHARE:				
Basic and diluted	<u>\$0.00</u>	<u>(\$0.01)</u>	<u>\$0.00</u>	<u>(\$0.02)</u>

**See Notes to Consolidated Financial Statements**

**Versatile Mobile Systems (Canada) Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited - Prepared by Management)**

	Three months ended December 31		Six months ended December 31	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>				
Net earnings (loss) for the period	\$ 4,780	\$ (1,068,604)	\$ 148,744	\$ (1,850,196)
Items not affecting cash				
Amortization of capital assets	67,031	30,434	115,137	105,073
Amortization of intangible assets	14,874	64,692	52,796	129,561
Deferred lease restructuring costs	-	(34,635)	-	(69,270)
Unrealized foreign exchange gain	(76,804)	(33,204)	(87,466)	136,835
Other	13,643	(62,078)	8,006	(62,562)
	<u>23,524</u>	<u>(1,103,395)</u>	<u>237,217</u>	<u>(1,610,559)</u>
Net change in non-cash working capital items	(781,062)	17,892	(1,261,710)	(473,870)
	<u>(757,538)</u>	<u>(1,085,503)</u>	<u>(1,024,493)</u>	<u>(2,084,429)</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>				
Additions to capital assets	(18,554)	(18,132)	(69,587)	(33,060)
	<u>(18,554)</u>	<u>(18,132)</u>	<u>(69,587)</u>	<u>(33,060)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>				
Proceeds from Units issued on the private placement	870,000	-	870,000	-
Share issue costs	(7,457)	-	(7,457)	-
Proceeds from shares issued on exercised stock option:	6,667	-	6,667	-
Capital lease obligations	(5,185)	-	(7,575)	-
	<u>864,025</u>	<u>-</u>	<u>861,635</u>	<u>-</u>
INCREASE (DECREASE) IN CASH and cash equivalents	87,933	(1,103,635)	(232,445)	(2,117,489)
CASH and cash equivalents, beginning of period	831,909	1,996,106	1,152,287	3,009,960
CASH and cash equivalents, end of period	\$ 919,842	\$ 892,471	\$ 919,842	\$ 892,471
Supplementary information				
Cash paid for interest expense	\$ 2,891	\$ 243	\$ 4,846	\$ 1,901
Cash paid for income taxes	1,119	-	1,119	-

**See Notes to Consolidated Financial Statements**

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**Versatile Mobile Systems (Canada) Inc.**  
**Notes to Consolidated Financial Statements**  
**For the period ended December 31, 2003**  
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**1. Consolidated financial statement presentation:**

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report for the year ended June 30, 2003.

**2. Comparative figures**

Certain reclassifications have been made to prior periods to conform to the current presentation.

**3. Changes in accounting policies:**

The accounting policies applied in these interim financial statements are consistent with those applied in the Annual Report, except with respect to the change in accounting policies described below.

(a) Intangible assets

Intangible assets acquired individually or with a group of assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful life relate to acquired software licenses and are amortized over their estimated useful life. The amortization methods and estimated useful lives of intangible assets are reviewed annually.

The company during the period reviewed the estimated useful lives of the intangible assets. After the review, the Company increased the estimated useful lives of the intangible assets from three years to four years.

**4. Share Capital**

(a) Common shares

Authorized

100,000,000 common shares without par value

Issued and outstanding

	<u>Number of Shares</u>	<u>Amount</u>
Balance - June 30, 2003	79,897,533	\$ 55,824,954
Shares issued on private placement	2,485,713	745,714
Share issue costs	-	(7,457)
Shares issued on exercise of options	66,666	6,667
Balance - December 31, 2003	<u>82,449,912</u>	<u>\$ 56,569,878</u>

(b) Warrants

On December 4, 2003 the Company issued 2,485,713 warrants. Each common share purchase warrant entitles the holder to purchase one common share at \$0.40 per common share on or before December 4, 2004. Of the Unit price of \$0.35 the Company allocated \$0.05 to the warrant for a total of \$124,286.

(c) On December 4, 2003, the Company closed a non-brokered private placement and issued 2,485,713 Units at a price of \$ 0.35 per Unit for gross proceeds of \$870,000. Each Unit consisted of one common share and one common share purchase warrant. Each common share warrant entitles the holder to purchase one common share of the Company for a period of twelve months after the Closing Date at a price of \$0.40 per common share. The price of \$0.35 per Unit was allocated as to \$0.30 per common share and \$0.05 per warrant.

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**5. Stock Options**

On August 20, 2003, the Company granted employee incentive stock options to acquire a total of 275,000 common shares of the Company exercisable for a period of 4 years at a price of \$ 0.11 per share.

On December 8, 2003, the Company granted employees and a director incentive stock options to acquire a total of 145,000 common shares of the Company exercisable for a period of 4 years at a price of \$ 0.32 per share.

On December 18, 2003, stock options to acquire a total of 100,000 common shares of the Company at a price of \$1.00 per share expired.

	<b>Number of Shares</b>	<b>\$</b>	<b>Weighted average exercise</b>
Balance - June 30, 2003	6,795,000	\$	0.48
Granted	420,000		0.18
Exercised	(66,666)		0.10
Expired	(100,000)		1.00
Balance - December 31, 2003	<b>7,048,334</b>	<b>\$</b>	<b>0.46</b>